BANISTER CONTINENTAL LTD. ANNUAL REPORT 1985

On Thanksgiving Day, 1985, a section of wall in Lock 7 collapsed, bringing shipping in the St. Lawrence Seaway to a standstill. National attention focused on the Welland Canal as Pitts Engineering Construction raced to complete emergency repairs.

BANISTER

Financial Review

	Year Ended December 31, 1985	Year Ended December 31, 1984	Percentage Change
Revenue	$114,298,000	$106,233,000	+7.6
Net income	$ 775,000	$ 239,000	+224.3
Earnings per share	$ .15	$ .05	+200.0
Common shares outstanding	5,038,023	5,038,023	0
Cash and short-term deposits	$ 15,872,000	$ 13,192,000	+20.3
Bank and similar indebtedness	$ 21,221,000	$ 20,760,000	+2.2
Total shareholders' equity	$ 42,970,000	$ 42,195,000	+1.8
Total assets	$ 91,595,000	$ 87,205,000	+5.0
Total backlog	$ 51,300,000	$ 52,400,000	−2.1

Foreword

Banister Continental Ltd. is a Canadian construction company specializing in civil, marine, pipeline, industrial, and underground utility construction. During more than forty years of operation, projects have been completed in Canada, the United States, and the Middle East.

Banister was founded in 1948 and became a public corporation in 1969. Banister shares are listed on the Toronto, Montreal, Alberta, and American Stock Exchanges.

In 1985 Banister acquired a 50% interest in a mechanical-electrical contractor located in central Canada. This is an important step in developing new capabilities and expanding the Corporation's role in the construction industry.

The Corporation's Form 10-K Annual Report to the Securities and Exchange Commission is available to shareholders, at no charge, upon written request to the Manager, Corporate Communications, Banister Continental Ltd., P.O. Box 2408, Edmonton, Alberta T5J 2R4.

Contents

In the fall of 1985, Pitts Engineering Construction carried out the most important repair job in its 43-year history. On Thanksgiving Day, October 14, part of a wall in Lock 7 of the Welland Canal at Thorold, Ontario collapsed, bringing shipping in the St. Lawrence Seaway to a standstill. Pitts was immediately called in by the St. Lawrence Seaway Authority to carry out emergency repairs.

A 46-metre (150-foot) section of concrete weighing thousands of tons had broken away from the lock wall and trapped a Liberian vessel outbound for Egypt with a cargo of grain. The FURIA was freed undamaged the following day and became the first in a long line of ships waiting to pass through the lock.

The Welland Canal is the 43-kilometre (27-mile) section of the St. Lawrence Seaway which links Lake Erie with Lake Ontario. A total of eight locks enable ships to navigate the 100-metre (325-foot) change in water level between the two lakes. With Lock 7 closed, all shipping in the upper section of the St. Lawrence Seaway came to an abrupt halt.

National attention was suddenly focused on the collapsed wall. More than 125 vessels from 16 nations were stranded at the height of the shipping season and the prices of goods, such as grain, which are exported through the Seaway, fluctuated on commodities markets. Costs to ship owners and losses in international trade mounted daily.

Time was of the essence in carrying out a task both difficult and dangerous. Steel braces were placed across the lock to stabilize the walls and prevent further damage. Working from barges, Pitts crews removed the dislodged concrete from the partially drained lock, while at the same time backfill was excavated from outside the lock wall. Rock anchors were then installed both inside and out to support the remaining concrete and reinforcing steel was placed. More than 2,100 cubic metres (2,750 cubic yards) of new concrete was then poured to restore the lock to operating condition.

Working 24 hours a day and seven days a week, Pitts completed repairs exactly 21 days after being awarded the contract. When Lock 7 reopened on November 6, W.A. O'Neil, president of the St. Lawrence Seaway Authority, expressed the relief felt by many:

> *"the successful conclusion to what was a very costly and harrowing experience for both the users and operators of the Seaway system was in large part due to the dedicated round-the-clock efforts of your company . . . In the face of extremely adverse weather conditions, a task that would normally have taken months to complete was accomplished in three weeks – it was indeed a most impressive achievement."*

Perhaps, though, the greatest compliment Pitts received was being called in to do the work in the first place. In emergency situations, a reputation for performance under difficult circumstances is a contractor's highest recommendation. Pitts' reputation continues to grow as each new challenge is met.

A crew of 120 worked around the clock to complete repairs in 21 days.

Expertise and years of experience enabled Pitts to meet the challenge of this unique and dangerous project.

The FURIA was the first ship to pass through the lock just three weeks after being trapped in the St. Lawrence Seaway.

To Our Shareholders

R.K. Banister *(right), chairman and chief executive officer, and*
R. MacTavish *(left), president, chief operating officer, and chief financial officer.*

The Canadian engineering construction industry experienced another difficult year in 1985. Under these conditions we are pleased to report that after-tax profits increased to $775,000 on revenues of $114,298,000 for the year ending December 31, 1985. Although this volume is significantly below our capacity, our operating results have improved. The resiliency your Corporation has shown results from management's efforts to decrease overhead, dispose of surplus assets, and bid and execute work assiduously.

The recent world-wide decrease in the price of oil will likely result in reduced levels of construction activity in the petroleum sector in the coming year. Your Corporation took an important step in 1985 to expand construction capabilities and make us less dependent on the petroleum sector.

In December the Corporation acquired a 50% interest in Nicholls-Radtke Ltd. This organization is headquartered in a 7,900 square meter fabrication facility in Cambridge, Ontario. Specializing in industrial construction, Nicholls-Radtke provides Banister with a diversified client base in central Canada. The founders of Nicholls-Radtke, Mr. D. J. Radtke and Mr. W. C. Nicholls, have retained their executive positions and an equity interest in the new company. We are optimistic that, under their entrepreneurial leadership, Nicholls-Radtke will play an important role in the Banister Construction Group in the years ahead.

Perhaps the best news for shareholders in 1985 was the favorable ruling Banister received on November 13 from the Court of Appeals of the State of Oregon. The original jury award of U.S. $12,800,000 plus interest, received on February 13, 1983, was upheld. The lawsuit relates to a pipeline constructed in Oregon in 1980-81.

The defendant, Northwest Pipeline Corporation, has petitioned the Supreme Court of the State of Oregon to review the appeal. As of the date of this message, we do not know if a review will be granted. We are hopeful that the review will be denied and payment of approximately U.S. $16,000,000 will be received immediately thereafter. If a review is granted by the Supreme Court of Oregon, it will delay the final outcome for an undetermined length of time. However, management remains optimistic that once the judicial process is complete, we will prevail.

Shareholders will recall that we agreed to non-binding mediation to amicably settle a $108,000,000 claim relating to construction of the Revelstoke dam and powerhouse for British Columbia Hydro. Negotiations are continuing with a view to settling these claims. The joint venture has agreed not to commence legal action with respect to the claims until the earlier of repayment of certain indebtedness to the owner or March 31, 1986.

The Corporation's accounting policy is conservative. All of the losses for the pipeline project in Oregon and the dam and powerhouse in British Columbia were written off in past years. Therefore, any awards will considerably strengthen the Corporation's already sound balance sheet.

Four of the Corporation's five operating units recorded profits in 1985. Banister Pipelines, Pitts Engineering Construction, and Cliffside are wholly owned divisions and all were profitable. Nicholls-Radtke, a fifty-percent-owned affiliate acquired in December, made a contribution to profit in the last quarter of 1985. Bantrel Group Engineers Ltd., a twenty-percent-owned affiliate, had some important engineering awards but recorded a loss for the year. Details of the operations of these units will be discussed in the body of this annual report.

A major problem facing the business community is skyrocketing costs for general liability insurance coverage. The construction industry and your Corporation are currently determining how best to cope with this problem. We may restructure our divisions back to their previous subsidiary status to reduce our insurance costs, maintain adequate coverage, and remain competitive.

We are pleased that the February 26, 1986 Federal budget will reduce the national deficit. We believe the international financial community's confidence in the Conservative government will be increased by this commitment to deal effectively with a serious financial problem.

During the year Mr. W. M. Bateman retired as President and Chief Operating Officer and Mr. R. MacTavish was promoted from Executive Vice President to fill the Presidency. W. M. Bateman, whose father was also a long-term employee, made invaluable contributions to the success of the Corporation and we offer our heartfelt appreciation and congratulations.

Banister Continental Ltd. is one of Canada's premier contractors. We have a strong balance sheet, proven expertise, and a wide scope of construction disciplines to offer our clients.

While 1986 looks like a difficult year for our industry, we are confident that we will continue our record of achievement.

Respectfully submitted on behalf of the Board,

R. K. Banister

R. K. BANISTER
Chairman and Chief Executive Officer

R. MacTavish

R. MacTAVISH
President, Chief Operating Officer
and Chief Financial Officer

March 4, 1986

Civil and Marine Engineering Construction

J.J.F. (John) Loewen, group vice president, civil construction, and president of Pitts Engineering Construction.

Pitts Engineering Construction is one of Canada's largest heavy civil and marine construction contractors. Pitts specializes in large-scale energy developments, hydroelectric dams, tunnels, subways, bridges, highways, railways, dredging, and marine work. During the past 43 years, Pitts has worked on a wide variety of projects across Canada, and in 1985 extended operations to the United States.

In May, Pitts completed a transit station at B.C. Place Stadium, twin bored tunnels, modifications to an existing tunnel, and a section of cut-and-cover tunnel – part of Vancouver's new ALRT (advanced light rapid transit) system. This $13.5 million contract was awarded in mid-1983 by B.C. Transit and Metro Canada Limited.

The Hunt Club Bridge in Ottawa, Ontario also reached final completion in 1985. The bridge is a twin 230-metre (755-foot) concrete and steel structure carrying six lanes of traffic over the Rideau River near Ottawa International Airport. The owner of this $9 million project is the Regional Municipality of Ottawa-Carleton.

Pitts is proceeding with another major project for the same client. A series of related contracts has been awarded to Pitts during the past two years for construction of part of Ottawa's bus transit system. The $8.5 million East Transitway was completed on schedule in 1985. Two adjacent contracts totalling $8.6 million have been awarded to Pitts for bridges, retaining walls, and the new St. Laurent Station. Work will include excavation of 180,000 cubic metres (235,450 cubic yards) of earth and rock in a congested urban location, major utility reconstructions, and placing of 28,000 cubic metres (36,625 cubic yards) of concrete.

***Above:** Vancouver's ALRT (advanced light rapid transit) system is ready for Expo '86.*

The largest contract under construction in 1985 is part of the new Canadian Pacific rail line through Rogers Pass near Revelstoke, British Columbia. Pitts' contract is for a difficult section of surface route along the mountainside above the Beaver River. Included in the project is the seven-span, high-level Stoney Creek bridge, which was substantially completed in 1985. Progress was also made during the year on the east portal of the Shaughnessy Tunnel, a 1,230-metre (4,035-foot) steel and concrete viaduct, and a 900-metre (2,955-foot) section of rail grade supported by precast concrete retaining walls tied into the mountainside with ground anchors.

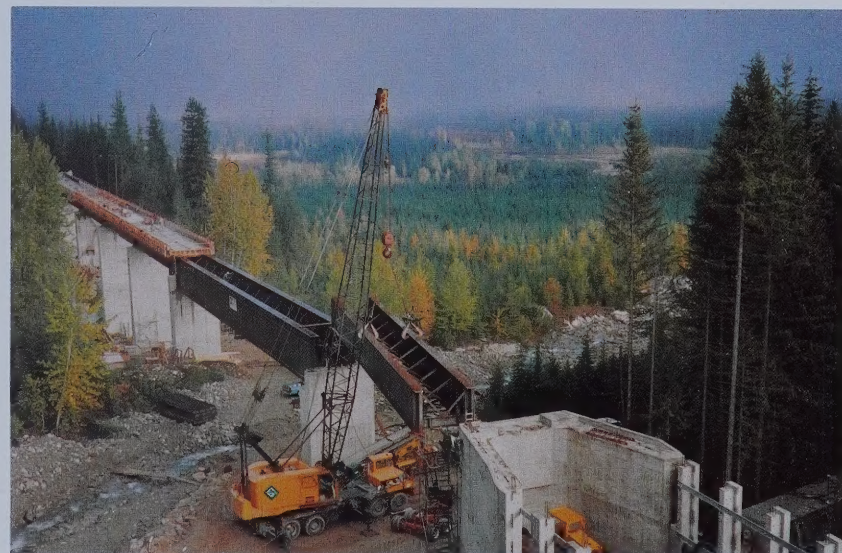
Due to the severity of winters in the Rogers Pass area, the working season is only six months per year. Awarded in June, 1984, this project is now 65% complete and scheduled for final completion in mid-1987.

A high-profile repair job for the St. Lawrence Seaway Authority in 1985 is featured on page 1 of this report. Pitts has many years experience in canal and lock reconstruction. Earlier in the year, two contracts for underpinning and stabilization of the sixty-year-old concrete walls of the Welland Canal near Port Colborne, Ontario were completed eight months ahead of schedule.

Also during 1985, Pitts carried out three dredging contracts with a total value of $3.8 million for Public Works Canada in the Maritimes. Work at Lunenburg, Nova Scotia and Long Pond, Newfoundland was completed early in the year. A contract for dredging and harbour improvements at Stephenville, Newfoundland, awarded in October, 1985, was 70% complete at year-end.

Late in 1985 Pitts was awarded a contract for a sewer tunnel in Milwaukee, Wisconsin valued at U.S. $9.2 million. Work is being carried out in joint venture with an American construction company and is expected to take approximately two years. This is Pitts' first project outside of Canada.

Another Pitts joint venture is low bidder on a similar tunnel contract in Montreal, Quebec. A $32 million project for the Montreal Urban Community will include a concrete-lined interceptor tunnel 4 metres (13 feet) in diameter and 6,500 metres (21,325 feet) long with connecting tunnels and an access structure. Completion is scheduled for 1988.

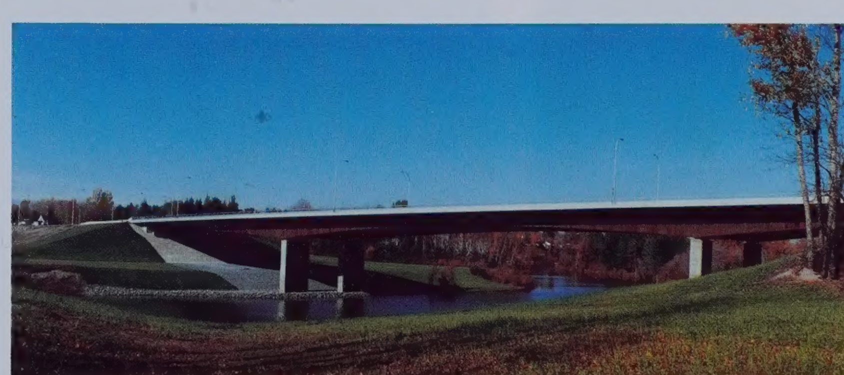


Above: Structural steel goes up for the Stoney Creek bridge in Rogers Pass, British Columbia.

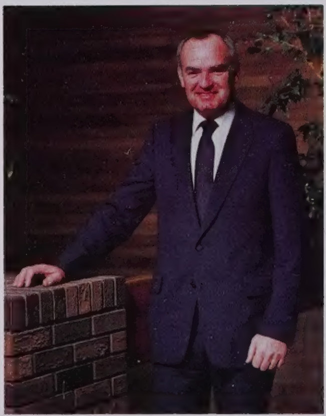
Left: Installing soil anchors for a retaining wall at the Rogers Pass jobsite.

Below: Pitts is constructing a section of railway grade above the Beaver River for CP Rail.

In 1985 Pitts continued to face fierce competition for the limited volume of available work. We are currently investigating opportunities in the design, construction, and operation of small hydroelectric power plants, the output from which could be sold to utility and industrial clients under long-term contracts. In addition to pursuing opportunities throughout Canada, we are also exploring selected markets in the United States and overseas.



The Hunt Club bridge in Ottawa is now open to traffic.



R.F.C. (Bob) Marriott, group vice president, pipelines, and president of Banister Pipelines.

Banister Pipelines is a leader in the Canadian pipeline construction industry. Banister specializes in large-diameter cross-country pipelines, distribution and gathering systems, pipeline river crossings, and testing and upgrading of existing pipelines. During its 37-year history, major pipeline projects have been completed in Canada, the United States, and the Middle East.

In 1985 the pipeline construction industry continued in a depressed state, with available capacity far exceeding the market demand. Banister Pipelines was successful in obtaining a contract to construct 105 kilometres (65 miles) of 168-324 millimetre (6-12 inch) natural gas pipeline in the Eastern Townships of Quebec for Gaz Inter-Cite Quebec Inc. In spite of a slow start due to wet weather, work was completed on schedule. This joint-venture project accounted for 85% of the pipeline division's volume.

Banister also performed upgrading for TransCanada PipeLines at five locations in southeastern Ontario. Work included sealing off and abandoning an unused line, lowering a concrete-coated line through a swamp, changing valves, testing, and emergency repairs to TCPL's main natural gas line near Oshawa, Ontario.

In October Banister Pipelines carried out high impact welding tests for Nova, An Alberta Corporation. Currently at the experimental stage, high impact welding is a potentially less costly and more efficient welding method.

Competition in 1986 will continue to be high with few new mainline construction projects built in Canada.

Above: Excavator at work on the pipeline right of way in Northern Quebec.

Far Left: Banister Pipelines constructed 105 km of natural gas pipeline for Gaz Inter-Cite Quebec Inc. in 1985.

Smaller projects and replacement and upgrading of existing lines will remain an important secondary market for our services. With careful bidding and construction planning, we will be able to achieve forecast revenues and profits. In the long-term we will continue to develop additional markets for our services both in Canada and internationally.

The Corporation has been involved in pipeline construction in the United States since 1966. In 1975 operations expanded to the Middle East and several important projects were completed in Iraq.

Banister's most recent pipeline project outside of Canada was the construction of 177 km (110 miles) of natural gas pipeline in Oregon for Northwest Pipeline Corporation. Upon completion of this project in 1981, Banister claimed reimbursement for extra costs incurred due to changed conditions. A lawsuit ensued, and in February of 1983 we were awarded U.S. $12.8 million, plus interest, by jury verdict.

Northwest appealed the verdict; on November 13, 1985, the appeal was denied and the original verdict upheld by the Court of Appeals of the State of Oregon. Northwest has now petitioned the Oregon Supreme Court to review the appeal. We do not yet know if a review will be granted, but are hopeful that it will be denied and payment of the award will be received in 1986. In accordance with our accounting policies, no recovery will be recorded in the Corporation's financial statements until the matter has been finally resolved.

Banister continues to investigate pipeline opportunities outside of Canada and will pursue international work through joint ventures in 1986.

Left: Welding natural gas pipeline for Gaz Inter-Cite project.

Below Left: Crossing the St. Francois River near Drummondville as part of the Quebec pipeline project.

Below: Sideboom operator.

E.R. (Dick) Austin, group vice president, utilities, and president of Cliffside.

Cliffside is Ontario's largest underground utility contractor. Cliffside installs natural gas services, telephone, electric, and cable television lines, water mains, storm drains, and sewers throughout Ontario and in Quebec, with the largest volume of work performed in the Metropolitan Toronto area.

In 1985 Cliffside achieved record revenues and profits, with work volumes increasing in all of its operating divisions. Record sales of new homes in the Toronto area and an upward trend in the economy resulted in high levels of utility construction work throughout the year.

Cliffside's gas distribution division was extremely active during the first quarter of 1985 converting homes from oil to natural gas before the Federal conversion grant program ended on March 31. Cliffside's Bell and Hydro, water and sewer, and boring crews were also busy throughout the year.

In 1985 Cliffside entered the Quebec market and constructed 26 km (16 miles) of natural gas distribution line in Hull. Cliffside plans to pursue gas distribution and Bell and Hydro work in Quebec from a new leased location in Montreal.

During the year Cliffside also established an office and yard in Hamilton, Ontario to better serve clients in that area. Cliffside now operates from a total of eight locations in Central Canada.

Above: Excavating the trench is a first step in installing utility cables for a new subdivision in Toronto.

Left: Installing a natural gas line along a busy thoroughfare in west Toronto.

Above: Cliffside worker completes weld on gas main.

Far Left: Cliffside crew replacing a sewer line in downtown Toronto

Cliffside embarked on a new type of work in 1985: installation of fibre optic cables for telephone lines. In November, 200 km (125 miles) of fibre optic cable between London and Windsor, Ontario was successfully completed for Bell Canada.

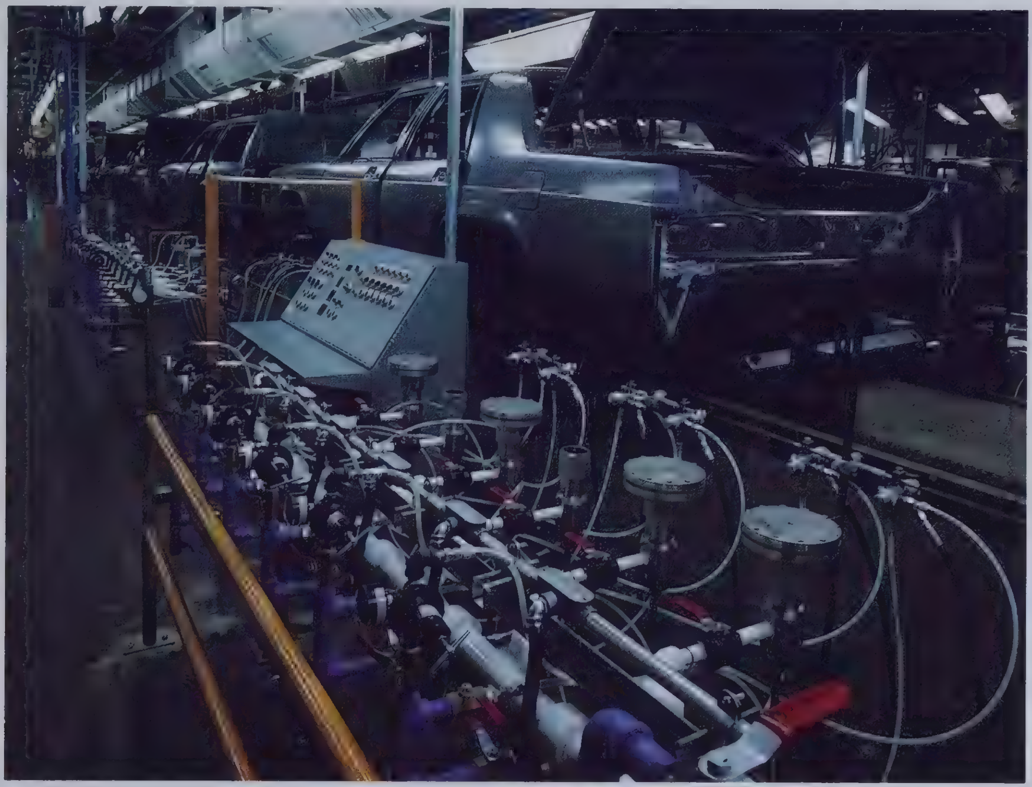
Two important equipment acquisitions during the year expanded Cliffside's capabilities. Fibre optic cable is installed by a KRAC plow which can open a trench, lay the cable, and cover the trench in a single pass. Cliffside also acquired a vacuum excavator which uses revolutionary technology to minimize the excavation required for access to buried utility lines. Both machines performed well and increased productivity is expected in the future.

KRAC plow overcomes wet ground conditions to install fibre optic cable for Bell Canada.

Cliffside's manufacturing division also enjoyed a good year in 1985. Footage Tools designs and manufactures a range of custom field tools for utility construction, including underground piercing tools, boring machines, plastic fusion and squeeze-off tools, leak detectors, tapping machines, and other specialized equipment. Footage Tool's patented products are now used by all of the major Canadian gas companies and are becoming well-known throughout the United States and Canada.

The outlook for Cliffside remains very promising. Although volumes of gas distribution work may not be as high in 1986, an increase is forecast in Bell and Hydro work. The water and sewer and manufacturing divisions are expected to maintain current levels. Cliffside enters 1986 with a good backlog in all divisions and looks forward to another outstanding year.

INTRODUCING NICHOLLS-RADTKE LTD.



In December, 1985, Banister Continental Ltd. acquired a 50% interest in Nicholls-Radtke Ltd., a mechanical and electrical contractor headquartered in Cambridge, Ontario. This is an important step for the Banister Construction Group.

Nicholls-Radtke provides comprehensive mechanical and electrical construction services for modifications and installations in both new and existing plant facilities. Areas of expertise include piping, electrical, millwrighting and rigging, boilermaking, instrumentation, and fire protection.

Nicholls-Radtke is currently working on a series of major construction projects including the installation of a dehydration facility for Union Gas at its compressor station at Dawn, Ontario as well as the installation of mechanical and electrical systems for the cooling water pumphouse at Ontario Hydro's Darlington Nuclear Generating Station. Nicholls-Radtke is also handling plant modifications for Ford Motor Corporation at Oakville and Talbotville, Ontario, and installing an electrical cable pan system at the Darlington Station.

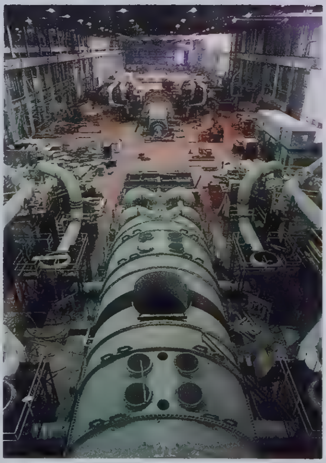
At present, Nicholls-Radtke is awaiting finalization of the contract for the installation of piping for the 800 megawatt turbines at the Bruce Nuclear Plant "B".

Nicholls-Radtke has completed projects throughout Canada in a wide variety of industries: oil and gas pipelines, food processing, automotive assembly, heavy industrial, chemicals and petrochemicals, nuclear power, pulp and paper, metals processing, electrical transmission, and other manufacturing facilities.

A 7,900 square metre (85,000 square foot) fabrication shop at Nicholls-Radtke's Cambridge headquarters makes use of the latest technology. Fabrication and assembly of materials and components at this modern facility often provide economic and scheduling advantages to clients.

Nicholls-Radtke was founded in 1975 by W. C. (Bill) Nicholls and D. J. (Dave) Radtke, who have retained 50% interest and remain on staff. Over the past ten years, Nicholls-Radtke has established an excellent reputation in the industrial sector of the construction industry.

Nicholls-Radtke's mechanical and electrical capabilities are a valuable addition to the Banister Construction Group. We are now able to provide more complete construction services to a broader range of clients. This is an important step forward in our continued growth and success in the construction industry.

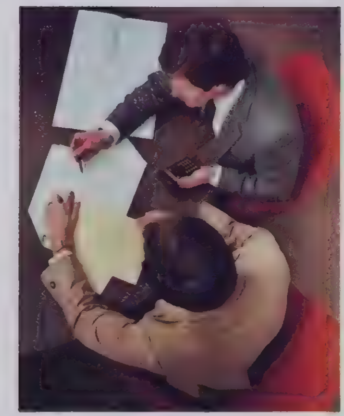


Bantrel Group Engineers Ltd.

In 1985 Bantrel Group expanded its mandate to include all petroleum-related work in Canada. Bantrel continues to pursue technical service and EPC (engineering, procurement, construction) contracts for offshore and Arctic projects, heavy oil upgraders and production facilities, tarsands plants, refineries, and petrochemical projects.

Bantrel was formed in 1983. Its members are Bechtel Canada Limited (40%), Banister Continental Ltd. (20%), Trimac Limited (20%), Bond Architects and Engineers Limited (10%) and Scotia Energy Services Limited (10%).

During 1985 Bantrel carried out studies for several major oil companies, including Petro-Canada, Parex, and Canterra. A major engineering contract was awarded to Bantrel early in 1985 for the secondary upgraders on Husky Oil's bi-provincial upgrader project at Lloydminster, Alberta.



Other contracts were awarded in 1985 by Dome Petroleum, BP Resources Canada, and Suncor. An EPC contract was awarded by Alberta Gas Chemicals Ltd. for an ammonia plant near Medicine Hat, Alberta. Increased activity in Eastern Canada included an engineering contract for upgrading a Petro-Canada refinery and an EPC contract for an Esso Chemical pelletizer plant in Sarnia, Ontario.

Although the outlook for 1986 depends to some extent on world oil prices, Bantrel is optimistic about the coming year. Specific market areas have been targeted and a number of potential projects identified. Bantrel's reputation for quality and service continues to grow.

Outlook

A drop in world oil prices at the end of 1985 darkened prospects for construction in the petroleum sector in Canada during the coming year. However, fluctuations in the petroleum industry are typically sudden and unpredictable; an upswing could greatly improve the outlook for 1986.

Banister's acquisition of a 50% interest in Nicholls-Radtke Ltd. is a first step toward making us less dependent on the petroleum industry. Nicholls-Radtke enters 1986 with a sizable backlog of work and is expected to contribute significantly to the Corporation's revenues and profits.

Banister Pipelines is especially vulnerable to market fluctuations in the oil and gas sector. While, historically, periods of decreased activity have been short-lived, we recognize the importance of adapting to current conditions. During 1986 Banister Pipelines will continue to pursue new opportunities for pipeline construction in Canada and internationally.

Civil and marine construction in Canada continues to suffer from a shortage of work and intense competition for the small amount of work that is available. We are hopeful that major sales of hydroelectric power by Quebec, Manitoba, and British Columbia will improve the long-term construction outlook in those provinces. Meanwhile, Pitts continues to bid on both traditional and new types of work, and hopes to expand operations in the United States and selected overseas markets.

Cliffside continues to thrive in Ontario's utility construction industry. Recent expansion into new market areas has enabled Cliffside to maintain the momentum built up over the past few years. We are confident that Cliffside will continue its solid financial performance in 1986.

Late in 1985 Bantrel Group Engineers Ltd. was shortlisted to bid on Mobil Oil Canada's Hibernia offshore development project. By mid-year we will know if we have been successful in our bid for this important contract. Bantrel will continue its aggressive pursuit of EPC work in the Canadian petroleum sector during 1986.

Although the Canadian construction industry remains depressed, we are confident of holding our own in 1986. Our reputation, experience, and strong balance sheet are valuable assets enabling us to make the most of current conditions. We look forward to improvement in the long-term.

FINANCIAL INFORMATION

Results of Operations

As a result of changing the fiscal year end from March 31 to December 31 effective in 1983, the operating results for the nine months ended December 31, 1983 are not necessarily comparable with the results for the years ended December 31, 1985 and December 31, 1984. Comparative financial results for the years ended December 31, 1985, 1984 and 1983 are referred to in the Corporation's summary of significant accounting policies.

Construction and service revenue increased to $112.1 million for the year ended December 31, 1985 compared to $104.4 million for the year ended December 31, 1984 primarily due to increased civil construction and utility construction revenues and the October 1, 1985 acquisition of 50% of Nicholls Radtke Ltd. partially offset by reduced pipeline construction revenue. Reference is made to Note 2 to the Corporation's Consolidated Financial Statements for a description of the pro forma information relating to the acquisition of Nicholls Radtke Ltd. The lower construction and service revenue of $97.5 million for fiscal 1983 reflects the short fiscal period referred to in the paragraph above. At December 31, 1985, the backlog of construction work was $51.3 million compared to $52.4 million and $44.8 million at December 31, 1984 and December 31, 1983 respectively.

In conjunction with the increase in construction revenue, operating expense for the year ended December 31, 1985 increased to $97.8 million from $92.8 million for the year ended December 31, 1984. Operating expenses relative to construction and service revenue for 1985 and 1984 are proportionally less than for 1983 because the latter period includes operating costs which exceeded revenue from the Revelstoke Dam project. Reference is made to Note 12(a) to the Corporation's Consolidated Financial Statements for a description of the contingencies related to the Revelstoke Dam Project.

Other income increased to $2.2 million for the year ended December 31, 1985 compared to $1.9 million for the year ended December 31, 1984 primarily due to increased gains on disposal of fixed assets partially offset by reduced interest income. Reference is made to Note 10 to the Corporation's Consolidated Financial Statements for a description of the components of other income.

Depreciation for the year ended December 31, 1985 increased to $3.6 million compared to $3.4 million for the year ended December 31, 1984 and $3.0 million for the 9 months ended December 31, 1983. The increase for fiscal 1985 compared to fiscal 1984 is due to additions to fixed assets during 1985. The increase over fiscal 1983 reflects the impact of the nine month fiscal period.

Interest expense for the year ended December 31, 1985 is substantially higher than for the year ended December 31, 1984 and the nine months ended December 31, 1983 because non-bank advances made to a joint venture were outstanding for a full year during fiscal 1985, compared to four months in fiscal 1984 and were not present during the nine months ended December 31, 1983.

Selling, administrative and general expense of $8.8 million for the year ended December 31, 1985 is higher than the $8.4 million for the year ended December 31, 1984 primarily due to the additional expense resulting from the acquisition of Nicholls Radtke Ltd. Selling, administrative and general expense for the year ended December 31, 1984 is greater than the expense for the nine months ended December 31, 1983 due to the shorter fiscal period in 1983, partially offset by the effect of the reduction in overheads and staff.

The effective income tax rate for the year ended December 31, 1984 was higher than both the statutory rate for fiscal 1984 and the effective income tax rates for 1985 and 1983 due to losses in the Corporation's U.S. subsidiary for which no tax recovery was provided.

Effects of Changing Prices

The Canadian Institute of Chartered Accountants (CICA) requires large publicly-held enterprises to provide supplementary disclosure of current cost adjusted financial information to reflect the effects of changing prices. The Corporation has complied with the CICA reporting requirements for changing prices which closely parallel the objectives of the United States Financial Accounting Standards Board (FASB) Statement No. 33.

Under the CICA requirements, the financial schedules presented below show the asset and income effects of specific changes in prices and of general inflation on the Corporation's fixed assets and net assets.

Specific price changes for the Corporation's property and equipment provide a measure of the current cost of maintaining the Corporation's productive capacity. Since the Corporation's fixed assets experience relatively little technological change, recent appraisals and supplier quotations were used to estimate the current cost of reproducing the Corporation's existing assets. Compared to the Corporation's historical accounts for the year ended December 31, 1985, the provision for depreciation has increased by $1.1 million to $4.7 million by depreciating the current cost values of fixed assets over the useful life assigned to them in the historical accounts, the gain on disposal of fixed assets was reduced by $0.7 million and net income was reduced by $1.8 million resulting in a net loss of $1.0 million on a current cost basis. No adjustment is made to the income tax reported in the historical cost financial statements.

The income (loss) attributable to common shareholders on a current cost basis in constant dollars reflects the increase in the current cost of fixed assets held during the period net of the effects of general inflation, and the loss in purchasing power of monetary assets as a result of general inflation. The income for the year ended December 31, 1985 attributable to common shareholders on a current cost basis in constant dollars indicates that the general purchasing power of the common shareholders' equity increased by $0.2 million. The loss attributable to common shareholders on a current cost basis for the corresponding period ended December 31, 1984 indicates that the general purchasing power of the common shareholders' equity declined by $0.6 million.

While the information on the effects of changing prices was prepared using valid assumptions, it must be recognized that the CICA recommendations provide for considerable flexibility and that equally valid alternative current cost assumptions could have produced materially different results.

SCHEDULE OF CONSOLIDATED INCOME ON A CURRENT COST BASIS
For the Years Ended December 31, 1985 and 1984
(In Canadian Dollars)

As Reported in the Historical Cost Financial Statements		Current Cost Basis	
1985		1985	1984
	Revenue:		
$112,064,000	Construction and services	$112,064,000	$108,297,000
2,234,000	Other income	1,515,000	1,935,000
114,298,000		113,579,000	110,232,000
	Expenses:		
97,822,000	Operating	97,822,000	96,281,000
3,633,000	Depreciation	4,730,000	4,487,000
2,344,000	Interest	2,344,000	948,000
8,887,000	Selling, administrative and general	8,887,000	8,670,000
112,686,000		113,783,000	110,386,000
1,612,000	Income (loss) before income taxes	(204,000)	(154,000)
837,000	Income taxes	837,000	489,000
$ 775,000	Net income (loss) on a current cost basis	(1,041,000)	(643,000)
	Increase in specific prices of fixed assets held during the period	3,117,000	1,795,000
	Income attributable to common shareholders on a current cost basis in nominal dollars	2,076,000	1,152,000
	Less increase in specific prices of fixed assets attributable to the effects of general inflation	(1,834,000)	(1,688,000)
	Less loss in purchasing power of net monetary assets attributable to the effects of general inflation	(90,000)	(46,000)
	Income (loss) attributable to common shareholders on a current cost basis in constant dollars	$ 152,000	$ (582,000)

The 1984 comparative results have been restated in 1985 average dollars.

SCHEDULE OF CONSOLIDATED ASSETS ON A CURRENT COST BASIS
As At December 31, 1985
(In Canadian Dollars)

As Reported in the Historical Financial Statements		Current Cost Basis	
1985		1985	1984
$33,407,000	Fixed assets — net	$44,144,000	$44,034,000
$42,970,000	Net assets (common shareholders' equity)	$53,707,000	$54,333,000

The 1984 comparative results have been restated in 1985 average dollars.

Liquidity

Cash and cash equivalents increased $4.6 million during the year ended December 31, 1985. $6.4 million cash was provided by operations partially offset by $2.0 million net cash used to acquire a 50% interest in Nicholls Radtke Ltd. Cash and cash equivalents decreased $4.5 million and $5.9 million for the year ended December 31, 1984 and the nine months ended December 31, 1983 respectively primarily reflecting the use of cash for operating activities.

Working capital decreased $1.2 million during 1985 compared to an increase of $1.3 million during 1984 and a decrease of $1.8 million during the nine months ended December 31, 1983.

Unused lines of credit decreased to $12.6 million at December 31, 1985 from $17.7 million at December 31, 1984 largely due to the Corporation's cancellation of its $6.0 million term line of credit.

The Corporation's cash and working capital positions could be materially improved by the favourable settlement of claims referred to in Notes 12(a) and (b) to the Corporation's Consolidated Financial Statements. The Corporation's cash position will be adversely affected by the repayment of joint venture indebtedness referred to in Note 7 to the Corporation's Consolidated Financial Statements.

In order to conserve cash resources, the Corporation did not make dividend payments in the fiscal periods ended December 31, 1985, 1984 and 1983.

Capital Resources

The Corporation replaces its construction equipment over an extended period of time based on the specific requirements of contracts obtained. In certain situations, the Corporation will rent or lease rather than purchase equipment. Equipment purchased for certain long-term civil construction contracts may be funded by proceeds from mobilization advances received at the beginning of such contracts.

Management believes that capital resources are adequate to meet requirements for 1986.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1985, 1984 and 1983

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which, in the case of the Corporation, are not materially different from those generally accepted in the United States. Because a precise determination of many assets and liabilities depends on future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Fiscal Year Change

In 1983, the closing date of the fiscal year was changed from March 31 to December 31. The accompanying consolidated financial statements cover the years ended December 31, 1985 and 1984, and the nine months ended December 31, 1983. Comparative financial results for the years ended December 31, 1985, 1984 and 1983 are reported below:

			Unaudited Year Ended December 31,
	1985	1984	1983
Revenue	$114,298,000	$106,233,000	$116,722,000
Net income (loss)	$ 775,000	$ 239,000	$ (5,025,000)
Income (loss) per share:			
Basic	$ .15	$ .05	$ (1.00)
Fully diluted	$ .15	$ .05	$ (1.00)

Consolidated Statement of Changes in Cash Resources

In accordance with recommendations of the Canadian Institute of Chartered Accountants, a statement of changes in cash resources is presented which reflects the impact on the Corporation's cash resources from operations, financing and investing activities. Prior periods' figures have been restated to reflect this basis of presentation. In prior periods this statement had been presented to reflect the changes in working capital and working capital components.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries and its pro rata share of assets, liabilities, revenues and expenses of joint ventures. Note 1 to the financial statements summarizes the effect of the joint ventures on the consolidated financial statements.

Translation of Foreign Currencies

The accounts of the Corporation, its foreign subsidiaries and joint ventures stated in foreign currencies have been translated into Canadian dollars using:

- the fiscal year end exchange rates for monetary items which include cash, amounts receivable and payable, and long-term debt;
- exchange rates in effect at the time of the transaction for non-monetary assets, liabilities and deferred credits; and
- exchange rates prevailing during the period for revenues and expenses, except for depreciation which has been translated at rates pertaining to the related assets.

Commencing with the year ended December 31, 1984, significant unrealized foreign exchange gains or losses relating to long-term monetary items are deferred and amortized over the remaining life of the monetary item. All other foreign exchange gains and losses are included in income. In previous fiscal periods all foreign exchange gains and losses were included in income. This change was made to comply with new accounting pronouncements of the Canadian Institute of Chartered Accountants and has no material impact on the financial statements.

Accounting for Contracts

Income, from contracts which may extend up to five years, is determined on the percentage of completion basis except that income from contracts of a fixed price nature is not recognized until projects attain a stage of completion sufficient to reasonably determine the probable results. Provision is made for all anticipated losses as soon as they become evident. Claims for additional contract compensation are not recognized until resolved.

Unbilled revenues on contracts in progress are included in accounts receivable. Deferred contract costs represent the excess of costs incurred over the amount of billings less profits earned on uncompleted contracts. Unearned revenue and contract advances represent the excess of billings over the amount of costs incurred and profits earned on uncompleted contracts and payments received from clients in advance of the performance of the work. Provisions for anticipated losses on uncompleted contracts are deducted from related deferred contract costs with any excess being included in unearned revenue.

Where the Corporation incurs interest costs, interest on the net accumulated expenditures on long-term construction projects is capitalized as a deferred contract cost.

Provision for estimated major overhaul costs for equipment is charged to contract costs as the equipment is utilized.

Land Held for Resale

Land held for resale is valued at the lower of cost and estimated net realizable value.

Fixed Assets

Fixed assets are recorded at cost and are depreciated on the straight line method, after recognition of salvage values ranging up to 30%, over the useful lives of the assets which are estimated to be 20 to 40 years for buildings and 4 to 15 years for construction equipment.

When joint ventures are established to perform single contracts and equipment is acquired for use during the contract to be disposed of upon completion of the contract, the cost of such equipment, net of estimated salvage value, is treated as a contract cost. The original cost of this equipment less estimated salvage value is amortized and charged to contract costs based on the percentage-of-completion method, with the percentage being determined on the same basis as that for income recognition. The unamortized portion of such equipment cost is included in deferred contract costs. Equipment not disposed of upon completion of the contract is classified as equipment held for disposal and is carried at estimated net realizable value.

Excess of Cost Over Net Assets at Acquisition

The excess of cost over net assets at acquisition, which resulted from the 1969 purchase of the Banister pipeline operations ($6,938,000), is not being amortized since the Corporation does not believe there is any diminution of value. The excess of cost over net assets resulting from acquisitions subsequent to 1974 ($98,000), is amortized on a straight line basis over the estimated life of such amounts, not to exceed forty years. Accumulated amortization at December 31, 1985 amounted to $10,000.

Income Taxes

Deferred income taxes result from timing differences between financial and tax reporting principally relating to recognition of construction revenues and accelerated depreciation. That portion of deferred income taxes which relates to amounts included in current assets and liabilities is shown as a current asset or current liability.

Unremitted earnings of the Corporation's foreign subsidiaries amounted to approximately $13,783,000 at December 31, 1985. Because the unremitted earnings can be repatriated on a tax free basis Canadian income taxes have not been provided for.

Retirement Plans

The Corporation and its subsidiaries maintain a retirement plan covering full-time employees. Pensions are funded currently and pension expense includes current costs and, if applicable, amortization of unfunded past service costs or plan gains.

Earnings (Loss) per Share

Basic earnings (loss) per share were computed by dividing net income (loss) by the weighted average number of common shares outstanding during each period.

Fully diluted earnings per share were determined on the assumption that convertible debt was converted at the beginning of the year and net income adjusted for the interest saving (net of tax).

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

(Stated in Canadian Dollars)

	Year Ended December 31, 1985	Year Ended December 31, 1984	Nine Months Ended December 31, 1983
Revenue:			
Construction and services	$112,064,000	$104,371,000	$ 97,495,000
Other income (Note 10)	2,234,000	1,862,000	2,450,000
	114,298,000	106,233,000	99,945,000
Expenses:			
Operating	97,822,000	92,791,000	98,689,000
Depreciation	3,633,000	3,462,000	2,992,000
Interest	2,344,000	914,000	99,000
Selling, administrative and general	8,887,000	8,356,000	6,710,000
	112,686,000	105,523,000	108,490,000
Income (loss) before income taxes	1,612,000	710,000	(8,545,000)
Income taxes (recoverable) (Note 8)	837,000	471,000	(4,362,000)
Net income (loss)	775,000	239,000	(4,183,000)
Retained earnings, beginning of year	4,333,000	4,094,000	8,277,000
Retained earnings, end of year	$ 5,108,000	$ 4,333,000	$ 4,094,000
Earnings (loss) per share:			
Basic	$ .15	$ .05	$ (.83)
Fully diluted	$ .15	$ .05	$ (.83)

See accompanying notes and summary of significant accounting policies)

CONSOLIDATED BALANCE SHEET

December 31, 1985 and 1984 (Stated in Canadian Dollars)

ASSETS	December 31, 1985	December 31, 1984
Current assets:		
Cash and short-term deposits (Note 3)	$15,872,000	$13,192,000
Receivables (Note 4)	21,319,000	23,807,000
Recoverable income taxes	55,000	–
Deferred contract costs	4,151,000	1,616,000
Equipment held for disposal (Note 12(a))	2,716,000	3,825,000
Land held for resale	3,760,000	2,625,000
Other current assets	2,716,000	2,370,000
Total current assets	50,589,000	47,435,000
Fixed assets, less accumulated depreciation (Notes 5 and 6)	33,407,000	32,326,000
Other assets, at cost	573,000	506,000
Excess of cost over net assets at acquisition	7,026,000	6,938,000
	$91,595,000	$87,205,000

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31, 1985	December 31, 1984
Current liabilities:		
Bank loans (Note 6)	$ 150,000	$ 2,025,000
Other advances (Note 7)	21,071,000	18,735,000
Accounts payable and accrued liabilities	16,056,000	14,130,000
Income taxes payable	–	162,000
Deferred income taxes	6,137,000	3,323,000
Unearned revenue and contract advances	600,000	1,349,000
Current portion of long-term debt (Note 9)	325,000	307,000
Total current liabilities	44,339,000	40,031,000
Long-term debt (Note 9)	1,650,000	922,000
Deferred income taxes	2,636,000	4,057,000
Contingencies (Note 12)		
Shareholders' equity:		
Common shares without nominal or par value – 20,000,000 shares authorized 5,038,023 shares issued	34,751,000	34,751,000
Contributed surplus	3,111,000	3,111,000
Retained earnings	5,108,000	4,333,000
Total shareholders' equity	42,970,000	42,195,000
	$91,595,000	$87,205,000

(See accompanying notes and summary of significant accounting policies)

On behalf of the Board:

R.K. Banister Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN CASH RESOURCES

(Stated in Canadian Dollars)

	Year Ended December 31, 1985	Year Ended December 31, 1984	Nine Months Ended December 31, 1983
Operating Activities:			
Net income (loss)	$ 775,000	$ 239,000	$(4,183,000)
Add (deduct) non–working capital items:			
Depreciation	3,633,000	3,462,000	2,992,000
Deferred income taxes	(1,421,000)	(2,321,000)	(77,000)
Loss (gain) on sale of fixed assets	(719,000)	3,000	(875,000)
Unrealized currency translation losses	50,000	73,000	14,000
Amortization of goodwill	10,000	–	–
Working capital provided by (used for) operations	2,328,000	1,456,000	(2,129,000)
Proceeds from sale of fixed assets	3,754,000	2,486,000	2,847,000
Additions to fixed assets	(6,069,000)	(2,519,000)	(2,410,000)
Working capital items	6,347,000	(5,792,000)	(4,034,000)
Other	60,000	165,000	136,000
Cash provided by (used for) operations	6,420,000	(4,204,000)	(5,590,000)
Financing Activities:			
Proceeds from long–term debt	500,000	–	–
Reduction in long–term debt	(322,000)	(308,000)	(293,000)
Cash provided by (used for) financing activities	178,000	(308,000)	(293,000)
Investing Activities:			
Business purchase less cash acquired (Note 2)	(2,043,000)	–	–
Cash used for investing activities	(2,043,000)	–	–
Increase (decrease) in cash and cash equivalents	$4,555,000	$(4,512,000)	$(5,883,000)
Net change in non-cash working capital balances related to operations represents the following:			
Receivables	$5,752,000	$(3,675,000)	$(2,444,000)
Recoverable income taxes	(55,000)	273,000	(273,000)
Deferred contract costs	(2,234,000)	(327,000)	2,290,000
Equipment held for disposal	1,109,000	(3,825,000)	–
Land held for resale	(1,135,000)	42,000	(682,000)
Other current assets	(223,000)	(375,000)	855,000
Other advances	2,336,000	1,073,000	7,162,000
Accounts payable and accrued liabilities	(904,000)	(2,340,000)	(1,605,000)
Income taxes payable	(162,000)	(15,000)	(865,000)
Deferred income taxes	2,814,000	2,792,000	(3,839,000)
Unearned revenue and contract advances	(969,000)	567,000	(4,635,000)
Current portion of long–term debt	18,000	18,000	2,000
Increase (decrease)	$6,347,000	$(5,792,000)	$(4,034,000)

Cash and cash equivalents represent cash and short term deposits less short term bank indebtedness.

(See accompanying notes and summary of significant accounting policies)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1985, 1984 and 1983 (Stated in Canadian Dollars)

NOTE 1. JOINT VENTURES

The Corporation has investments in and advances to joint ventures and has participated in these joint ventures in an effort to spread present day business risks and to make available to the Corporation increased capital and technological resources.

The Corporation's pro rata share of the joint venture operations included in the consolidated financial statements is summarized below.

Statement of Income

	Year Ended December 31, 1985	Year Ended December 31, 1984	Nine Months Ended December 31, 1983
Revenue	$15,038,000	$25,417,000	$39,452,000
Other income	101,000	–	–
	15,139,000	25,417,000	39,452,000
Operating expenses	12,399,000	24,824,000	50,783,000
Depreciation	52,000	–	–
Interest	2,269,000	807,000	–
Selling, administrative and general	334,000	–	–
	15,054,000	25,631,000	50,783,000
Income (loss) before income taxes	85,000	(214,000)	(11,331,000)
Income taxes	75,000	–	–
Net income (loss)	$ 10,000	$ (214,000)	$(11,331,000)

Balance Sheet

	December 31, 1985	December 31, 1984
Assets:		
Current	$10,241,000	$11,642,000
Fixed	2,219,000	–
Other	217,000	–
	$12,677,000	$11,642,000
Liabilities and owner's deficiency:		
Current liabilities	$24,528,000	$22,981,000
Long term deferred taxes	75,000	–
Long term debt	1,000,000	–
Owner's deficiency	(12,926,000)	(11,339,000)
	$12,677,000	$11,642,000

Notes:

(a) Transactions between the joint ventures and the Corporation have been eliminated in the consolidated financial statements including equipment rentals charged by the Corporation amounting to $498,000 for the year ended December 31, 1985, $804,000 for the year ended December 31, 1984, and $143,000 for the nine months ended December 31, 1983.

(b) Income taxes applicable to the income or losses of unincorporated joint ventures are not provided in the ventures' accounts but are provided, to the extent of the Corporation's share, in its consolidated statement of income. Income taxes applicable to income or losses of incorporated joint ventures are provided in the ventures' accounts.

(c) The financial statement presentation for 1984 is restated to conform with the presentation in 1985.

NOTE 2. ACQUISITION

Effective October 1, 1985 the Corporation acquired a 50% interest in Nicholls Radtke Ltd. by the purchase of common shares for $2,500,000. Nicholls Radtke Ltd. is in the electrical and mechanical construction business. The acquisition has been accounted for as a purchase and the pro rata share of the results of operations from October 1, 1985 have been included in the consolidated financial statements. The allocation of the purchase price is summarized as follows:

Cash	$ 457,000
Accounts receivable	3,264,000
Deferred contract costs	301,000
Fixed assets	1,680,000
Other assets	252,000
Accounts payable	(2,734,000)
Unearned revenue	(220,000)
Long term debt	(500,000)
Purchase price	$ 2,500,000

The amount shown in the consolidated statement of changes in cash resources as payment for the investment in Nicholls Radtke Ltd., reflects the purchase price of $2,500,000 less the cash resources at the date of acquisition of $457,000.

Additional consideration of up to $2,700,000 (Corporation's share $1,350,000) is payable in connection with the acquisition should future years' pre-tax income of Nicholls Radtke Ltd. exceed specified amounts. For the three months ended December 31, 1985 additional consideration of $96,000 is payable. This contingent consideration is recorded when it becomes payable and treated as excess of cost over net assets at acquisition and amortized on a straight line basis over ten years.

The following unaudited pro forma consolidated information includes the results of the Corporation's operations together with Nicholls Radtke Ltd. for the years ended December 31, 1985 and 1984 assuming the acquisition took place at the beginning of each period presented.

	Year ended December 31, 1985	1984
Revenue	$123,042,000	$115,678,000
Net income	$ 1,273,000	$ 358,000
Earnings per share	$ .25	$ .07

The pro forma results of operations are not necessarily indicative of the actual results that would have occurred had the acquisition been made at the beginning of the respective periods, or of the results which may occur in the future.

NOTE 3. CASH AND SHORT - TERM DEPOSITS

Cash and short-term deposits are made up of:

	Year ended December 31, 1985	1984
Cash on hand and in the bank (overdraft)	$ 4,742,000	$ (418,000)
Short-term deposits	11,130,000	13,610,000
	$15,872,000	$13,192,000

Cash and short-term deposits include collateral deposits amounting to $2,028,000 and $1,347,000 at December 31, 1985 and 1984 respectively securing bank letters of credit issued to third parties.

NOTE 4. RECEIVABLES

Receivables include holdbacks receivable amounting to $6,262,000 at December 31, 1985 and $7,960,000 at December 31, 1984. Included in receivables at December 31, 1984 are unbilled revenues amounting to $1,755,000.

Holdbacks receivable represent amounts billed but not paid by customers pursuant to retainage provisions in construction contracts and will be due upon completion and acceptance of the contract. Based on the Corporation's experience with similar contracts in recent years $4,518,000 of the balance at December 31, 1985 is expected to be collected in the year ending December 31, 1986 and the remainder in subsequent years.

NOTE 5. FIXED ASSETS

The cost and net book value of fixed assets (in thousands) are as follows:

	Cost		Net Book Value	
	December 31,		December 31,	
	1985	1984	1985	1984
Land and buildings	$ 7,807	$ 6,539	$ 6,415	$ 5,305
Construction equipment	56,756	57,803	26,516	26,662
Other	1,465	1,246	476	359
	$66,028	$65,588	$33,407	$32,326

NOTE 6. BANK LOANS

The Corporation has an operating line of credit of $36,885,000 of which $12,558,000 was unused at December 31, 1985. Used operating lines of credit, amounting to $24,327,000, include bank loans of $150,000 and $24,177,000 for letters of credit which principally relate to non-bank indebtedness of a joint venture. As collateral security the Corporation has given an assignment of accounts receivable and a $35,000,000 debenture providing a fixed and specific mortgage on all land, buildings, and major marine equipment and a floating charge covering all other assets.

NOTE 7. OTHER ADVANCES

Other advances comprise the Corporation's $21,071,000 share of indebtedness of a joint venture, payable on demand and on or before March 31, 1986, with interest payable at bank prime plus 1½% from August 31,1985. The indebtedness and interest obligation is secured by bank letters of credit issued in favour of the creditor. The bank letters of credit, which bear interest averaging 1¼%, are secured by a floating charge debenture on joint venture assets, the collateral security granted by the Corporation referred to in Note 6 and a cash collateral account containing salvage proceeds from the sale of major items of equipment.

NOTE 8. INCOME TAXES

The Canadian and foreign components of the income (loss) before income taxes are as follows:

	Year Ended December 31, 1985	Year Ended December 31, 1984	Nine Months Ended December 31, 1983
Canadian	$1,441,000	$1,062,000	$(8,425,000)
Foreign	171,000	(352,000)	(120,000)
	$1,612,000	$ 710,000	$(8,545,000)

The current and deferred components of the provision for income taxes are as follows:

	Year Ended December 31, 1985	Year Ended December 31, 1984	Nine Months Ended December 31, 1983
Current:			
Canadian — Federal	$ (271,000)	$ —	$ —
— Provincial	(149,000)	—	—
Foreign	(136,000)	—	61,000
	(556,000)	—	61,000
Deferred:			
Canadian — Federal	965,000	336,000	(3,221,000)
— Provincial	428,000	135,000	(1,202,000)
	1,393,000	471,000	(4,423,000)
Income taxes (recoverable)	$ 837,000	$471,000	$(4,362,000)

NOTE 8. INCOME TAXES (continued)

The following is a reconciliation between the normal Canadian federal statutory tax rate and the consolidated effective tax rate:

	Year Ended December 31, 1985	Year Ended December 31, 1984	Nine Months Ended December 31, 1983
Canadian federal income tax rate	46.9%	46.0%	(46.9)%
Expenses (income) not included for income tax purposes	(1.1)	(.2)	2.4
Operating losses for which no tax recoveries are currently available	–	20.8	1.3
Tax rate differential relating to the use of losses or tax loss carrybacks	–	(1.2)	(1.1)
Tax exempt portion of capital gain	(4.3)	(7.9)	(0.8)
Other including provincial rate differentials	10.4	8.8	(5.9)
Consolidated effective tax rate	51.9%	66.3%	(51.0)%

Deferred income tax expense (recovery) results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The source of these differences and the income tax effect of each was as follows:

	Year Ended December 31, 1985	Year Ended December 31, 1984	Nine Months Ended December 31, 1983
		(thousands of dollars)	
Depreciation:			
Differences between tax and book depreciation	$ (731)	$(1,375)	$ (930)
Long-term contracts including joint ventures:			
Use of percentage completion for financial purposes and use of billings less costs excluding contractual holdbacks for tax purposes	2,064	1,657	(892)
Loss provisions charged to expense for financial purposes but not deductible until incurred	(385)	–	(6,109)
Deductible losses in excess of amounts charged to expense	–	4,690	–
Reserve for equipment overhauls:			
Charged to expense for financial purposes but not deductible until paid	58	177	(216)
Loss carry-forwards:			
Benefits recognized for tax purposes which were previously recognized for financial purposes	420	–	4,385
Benefits recognized for financial purposes but not for tax purposes	(155)	(4,286)	–
Other:			
Expenses accrued or deferred for financial purposes, deducted for tax purposes as paid	122	(392)	(661)
Deferred income tax expense (recovery)	$1,393	$ 471	$(4,423)

Certain United States subsidiaries have operating loss carryforwards for federal tax purposes, for which no accounting tax benefit has been recognized, of approximately $18,210,000 (U.S. $13,023,000) available to reduce future years' taxable income and which expire as follows: $16,035,000 – 1996; $1,085,000 – 1998; $1,090,000 – 1999.

The Corporation's United States subsidiaries have investment tax credit carryovers of approximately $234,000 (U.S. $167,000) available to reduce future U.S. Federal income taxes and expire between 1990 and 1994.

NOTE 9. LONG-TERM DEBT

	December 31, 1985	December 31, 1984
Non-interest bearing note payable to an affiliate, no specified terms of repayment but not repayable within one year or until replaced by bank or other term financing	$1,000,000	$ –
5-½% U.S. dollar convertible subordinated debenture (U.S. $697,500 at December 31, 1985; U.S. $930,000 at December 31, 1984) payable to a company controlled by a director of the Corporation, repayable in equal annual instalments of U.S. $232,500 maturing December 31, 1988 convertible at the holder's option at U.S. $10.91 per share into 63,932 (85,243 at December 31, 1984) shares of common stock	975,000	1,229,000
	1,975,000	1,229,000
Less amount due within one year	325,000	307,000
	$1,650,000	$ 922,000

The principal repayments of long-term debt payable within the next five years are as follows:

1986 – $325,000; 1987 – $325,000; 1988 – $325,000

NOTE 10. OTHER INCOME

Other income consists of:

	Year Ended December 31, 1985	Year Ended December 31, 1984	Nine Months Ended December 31, 1983
Interest	$1,390,000	$1,776,000	$1,291,000
Gain (loss) on sale of fixed assets	719,000	(3,000)	875,000
Foreign exchange losses	(90,000)	(25,000)	(22,000)
Other	215,000	114,000	306,000
	$2,234,000	$1,862,000	$2,450,000

NOTE 11. RETIREMENT PLANS

The cost of the Corporation's retirement plan, which covers all non-union employees, was approximately $648,000 for the year ended December 31, 1985, $902,000 for the year ended December 31, 1984 and $718,000 for the nine months ended December 31, 1983.

Based on actuarial reviews at December 31, 1985 and 1984, the plan assets available for benefits and the present value of pension plan benefits are as follows:

	1985	1984
Plan assets available for benefits	$13,872,000	$12,125,000
Present value of pension plan benefits – vested	11,476,000	9,535,000
– nonvested	809,000	750,000
	12,285,000	10,285,000
Plan surplus at valuation date	$ 1,587,000	$ 1,840,000

NOTE 11. RETIREMENT PLANS (continued)

The assumed rate of return used in determining the present value of pension plan benefits is 5% per annum at December 31, 1985 and 1984.

Effective January 1, 1985 plan surplus of $1,243,000 was utilized to improve members' pension benefits under the Corporation's defined benefit retirement plan. The remaining surplus of $597,000 was recovered by the Corporation and is being amortized to reduce pension expense over a three year period. Under accounting principles generally accepted in the United States this surplus would be amortized over a longer period; however, this treatment would not materially impact upon the financial statements.

NOTE 12. CONTINGENCIES

(a) The Corporation has a 50% interest in Dalcan Constructors, a joint venture established to carry out the Revelstoke Dam project which was substantially completed in 1984. Up to December 31, 1985 the Corporation recorded a loss on the project of $47,342,000 ($23,153,000 net of tax). A loss of $47,812,000 ($23,383,000 net of tax) was provided for in prior fiscal years and in the current year a reduction of $470,000 in the loss provision ($230,000 net of tax) was reflected in the Corporation's financial statements. The decrease in the loss provision is a result of resolution of some minor claims with the owner.

The Corporation is jointly and severally liable for the obligations of its joint venture partners in all respects of the Revelstoke Dam project relating to the owner. A joint venture partner with a 15% interest in Dalcan Constructors has not fully complied with financial commitments required of the partners. Due to the continuing inability of this partner to meet its commitments, the additional loss of $1,992,000 ($996,000 net of tax) that could be incurred by the Corporation has been provided for and included in the loss recorded on the project referred to in the preceding paragraph.

In arriving at the projected contract loss, no recognition has been given to claims submitted to the owner for additional contract compensation, relating to substantial extra costs, aggregating approximately $108,000,000 ($56,000,000 Corporation's share), as such claims have not been resolved. The owner disagrees with substantially all of the joint venture claims. Discussions have taken place and negotiations will continue with a view to settling the claims. It is not possible to predict the outcome of these negotiations; accordingly, recoveries, if any, will not be reflected in the Corporation's financial statements until the claims are resolved. The joint venture has agreed not to commence legal action with respect to these claims until the earlier of repayment of certain indebtedness to the owner or March 31, 1986.

Contract costs have been reduced by the estimated proceeds to be received from the sale of equipment which was not disposed of upon completion of the contract. The estimated realizable value of these assets is $5,432,000 ($2,716,000 Corporation's share); however, it is uncertain when they will be sold and what the final proceeds will be.

The final outcome of this contract cannot be determined until the resolution of all claims and the disposition of the remaining equipment.

(b) During fiscal 1981, Banister Pipelines America, a division of the Corporation's U.S. subsidiary, was awarded contracts by Northwest Pipeline Corporation to construct approximately 110 miles of pipeline in the State of Oregon. Following completion of the job legal action against the client was commenced to recover approximately U.S. $30 million for additional expenses incurred, lost profits, damages, and interest thereon. On February 13, 1983 Banister Pipelines America obtained a jury award against Northwest Pipeline Corporation of U.S. $12,842,662 plus post judgement interest of 9% per annum and on November 13, 1985 the Court of Appeals of the State of Oregon upheld this verdict. On December 19, 1985 Northwest Pipeline Corporation petitioned the Oregon Supreme Court for a review of the decision. At this time it is not known whether the Court will grant such a review.

In accordance with the Corporation's accounting policies, no recovery will be reflected in the Corporation's financial statements until the matter is resolved. Federal U.S. taxes will not be payable on any such recovery to the extent that tax loss carryforwards and investment tax credits, referred to in Note 8, can be utilized.

(c) The Corporation is involved in other claims and litigation primarily arising in the normal course of its business for the reimbursement of costs of additional work and of additional costs incurred because of changed conditions. Any settlements or awards will be reflected in income as the matters are resolved.

(d) The Corporation is contingently liable for the usual contractor's obligations relating to performance and completion of construction contracts and for the obligations of its associates in unincorporated joint ventures.

NOTE 13. BUSINESS SEGMENTS

The Corporation operates in three industry segments: pipeline construction, civil engineering construction, and underground utilities construction.

Pipeline construction includes the construction, upgrading and testing of pipelines, gathering systems and distribution systems for the oil and gas industry. Since 1981, major pipeline construction activities have taken place only in Canada. During prior years, pipeline construction was active in Canada, the United States, and the Middle East.

The Corporation engages in civil engineering construction primarily for governments at all levels through its Pitts Engineering Construction division and electrical and mechanical work through Nicholls Radtke Ltd. Pitts does both dryland and marine work, specializing in the construction of large scale energy developments, multilane highways, bridges, dams and tunnels and marine construction. To date, all civil engineering construction and electrical and mechanical work has been carried out in Canada.

Industry Segments *(in thousands)*

	Pipeline Construction		
	Year Ended December 31, 1985	Year Ended December 31, 1984	Nine Months Ended December 31, 1983
Revenue from outside sources	$14,909	$27,487	$11,100
Segment operating profit (loss)	$ 85	$ 1,048	$ 3,011
Interest expense			
Income taxes (provided) recoverable			
Net income (loss)			
Identifiable assets	$21,353	$28,795	$41,828
Capital expenditures	$ 912	$ 375	$ 793
Depreciation and amortization	$ 1,181	$ 1,133	$ 1,027

Geographic Segments *(in thousands)*

Revenue from outside sources	
Segment operating profit (loss)	
Interest expense	
Income taxes (provided) recoverable	
Net income (loss)	
Identifiable assets	

Underground utilities construction operations are conducted by Cliffside Pipelayers, a division of the Corporation. Cliffside's work consists of the construction of all types of public utility systems in Metropolitan Toronto and throughout Ontario.

During fiscal 1985, civil construction operations received $11,762,000 from one client and utilities construction received $13,400,000 from another client, each representing more than 10% of total revenue. In the same fiscal period, civil construction activities received $28,083,000 and utilities construction activities received $7,600,000 of revenue from government and government agencies in Canada.

For the year ended December 31, 1984, pipeline operations derived $19,207,000 of revenue from one client and utilities construction derived $14,208,000 of revenue from another client, each representing more than 10% of total revenue. During the same fiscal period, civil construction activities derived $34,198,000 and utilities construction activities derived $5,226,000 of revenue from governments and government agencies in Canada.

During the nine months ended December 31, 1983, civil construction activities derived $63,222,000 of revenue from government agencies in Canada.

Civil Engineering Construction			Utility Construction			Consolidated		
Year Ended December 31, 1985	Year Ended December 31, 1984	Nine Months Ended December 31, 1983	Year Ended December 31, 1985	Year Ended December 31, 1984	Nine Months Ended December 31, 1983	Year Ended December 31, 1985	Year Ended December 31, 1984	Nine Months Ended December 31, 1983
$49,311	$36,692	$ 63,553	$50,078	$42,054	$25,292	$114,298	$106,233	$99,945
$ 171	$ (2,617)	$ (12,532)	$ 3,700	$ 3,193	$ 1,075	$ 3,956	$ 1,624	$ (8,446)
						(2,344)	(914)	(99)
						(837)	(471)	4,362
						$ 775	$ 239	$ (4,183)
$36,032	$32,581	$ 32,489	$34,210	$25,829	$16,365	$ 91,595	$ 87,205	$90,682
$ 4,181	$ 536	$ 59	$ 2,656	$ 1,608	$ 1,558	$ 7,749	$ 2,519	$ 2,410
$ 1,275	$ 1,371	$ 1,234	$ 1,177	$ 958	$ 731	$ 3,633	$ 3,462	$ 2,992

Domestic			Foreign			Consolidated		
Year Ended December 31, 1985	Year Ended December 31, 1984	Nine Months Ended December 31, 1983	Year Ended December 31, 1985	Year Ended December 31, 1984	Nine Months Ended December 31, 1983	Year Ended December 31, 1985	Year Ended December 31, 1984	Nine Months Ended December 31, 1983
$114,111	$106,346	$99,602	$187	$(113)	$ 343	$114,298	$106,233	$99,945
$ 3,826	$ 1,955	$ (8,326)	$130	$(331)	$(120)	$ 3,956	$ 1,624	$ (8,446)
						(2,344)	(914)	(99)
						(837)	(471)	4,362
						$ 775	$ 239	$ (4,183)
$ 91,551	$ 87,073	$90,034	$ 44	$ 132	$ 648	$ 91,595	$ 87,205	$90,682

AUDITORS' REPORT

To the Shareholders
Banister Continental Ltd.:

We have examined the accompanying consolidated balance sheets of Banister Continental Ltd. as at December 31, 1985 and December 31, 1984, and the consolidated statements of income and retained earnings and changes in cash resources for the years ended December 31, 1985, December 31, 1984, and the nine months ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1985 and December 31, 1984 and the results of its operations and changes in its financial position for the years ended December 31, 1985, December 31, 1984, and the nine months ended December 31, 1983 in accordance with accounting principles generally accepted in Canada applied on a consistent basis during the period.

Arthur Young, Clarkson, Gordon & Co.

Chartered Accountants
Edmonton, Canada
February 28, 1986

COMMENT ON DIFFERENCES IN CANADA – UNITED STATES REPORTING STANDARDS

In the United States, reporting standards for auditors require the expression of an opinion qualified as being subject to the outcome of significant uncertainties affecting the financial statements such as those referred to in the accompanying balance sheet as at December 31, 1985 and as described in Notes 12(a) and 12(b) to the financial statements. The above opinion is expressed in accordance with Canadian standards and is not qualified with respect to, and provides no reference to, these uncertainties since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements.

Arthur Young, Clarkson, Gordon & Co.

Chartered Accountants
Edmonton, Canada
February 28, 1986

MARKET FOR COMMON SHARES

The common shares of Banister Continental Ltd. are traded on the American Stock Exchange in the United States and the Toronto, Montreal, and Alberta Stock Exchanges in Canada. Following is a schedule of high and low share prices, by quarter, for the years ended December 31, 1985, and December 31, 1984 on the Toronto Stock Exchange and the American Stock Exchange.

a) on the Toronto Stock Exchange (in Canadian $)

Quarter ended:	Fiscal Year Ended December 31, 1985 High	Fiscal Year Ended December 31, 1985 Low	Fiscal Year Ended December 31, 1984 High	Fiscal Year Ended December 31, 1984 Low
March 31	9 7/8	6 3/4	6 3/4	6
June 30	10	8 5/8	8 1/8	5 3/4
September 30	10 1/4	9 1/8	8 7/8	7 1/2
December 31	10 3/8	8 5/8	8 1/2	6 5/8

b) on the American Stock Exchange (in U.S. $)

Quarter ended:	Fiscal Year Ended December 31, 1985 High	Fiscal Year Ended December 31, 1985 Low	Fiscal Year Ended December 31, 1984 High	Fiscal Year Ended December 31, 1984 Low
March 31	7 1/8	4 7/8	5 3/8	4 3/4
June 30	7 1/4	6 3/8	6 1/4	4 5/8
September 30	7 1/2	6 1/2	6 7/8	5 3/4
December 31	7 5/8	6 1/4	6 5/8	4 3/4

As of December 31, 1985 there were 1,956 holders of record of the Corporation's shares, as shown on the records maintained by the Corporation's Registrar and Transfer Agent. Included in the 1,956 holders of record are investment dealers and other nominees which hold shares of the Corporation on behalf of additional shareholders.

No dividends were declared during the years ended December 31, 1985, and 1984, nor during the nine months ended December 31, 1983.

The Investment Canada Act contains restrictions on the acquisition of control of the Corporation by persons who are not Canadian citizens or by non-eligible persons or groups, as defined therein.

Pursuant to the Income Tax Act of Canada, non-resident shareholders are subject to a 25% withholding tax on any dividend paid by the Corporation. As a result of tax conventions with the United States of America and certain other countries, the rate of withholding tax for residents of the United States and such other countries is reduced to 15%.

SELECTED FINANCIAL DATA

(Stated in Canadian Dollars except for exchange rates)

	For the Year Ended December 31,		For the Nine * Months Ended December 31,	For the Year Ended March 31,	
	1985	1984	1983	1983	1982
Revenue	$114,298,000	$106,233,000	$99,945,000	$258,858,000	$217,363,000
Net income (loss)	$ 775,000	$ 239,000	$ (4,183,000)	$ 4,058,000	$ 4,660,000
Income (loss) from continuing operations before extraordinary item	$ 775,000	$ 239,000	$ (4,183,000)	$ 4,058,000	$ 39,000
Earnings (loss) from continuing operations before extraordinary item per common share:					
Basic	$ .15	$ .05	$ (.83)	$ .85	$ .01
Fully diluted	$ .15	$ .05	$ (.83)	$ .84	$ .01
Total assets	$ 91,595,000	$ 87,205,000	$90,682,000	$ 97,054,000	$111,415,000
Long term debt	$ 1,650,000	$ 922,000	$ 1,157,000	$ 1,435,000	$ 8,982,000
Shareholders' equity	$ 42,970,000	$ 42,195,000	$41,956,000	$ 46,139,000	$ 37,553,000
Cash dividends declared per common share	$ —	$ —	$ —	$ .60	$ —
Weighted average number of common shares	5,038,023	5,038,023	5,038,023	4,767,000	4,028,000
Exchange rates (U.S. Dollar equivalent of $1 Canadian):					
End of period rate	$ .7152	$ .7568	$ .8036	$ .8104	$ .8171
Average rate for period	$ .7323	$ .7725	$ .8104	$ .8076	$ .8317
High rate for period	$ .7569	$ .8024	$ .8162	$ .8189	$ .8487
Low rate for period	$ .7147	$ .7518	$ .8001	$ .7726	$ .8056

Reference should be made to Note 12 of the Consolidated Financial Statements of the Corporation for a description of contingencies.

* On August 30, 1983, the Board of Directors changed the closing date of the fiscal year from March 31 to December 31. Reference is made to the Corporation's summary of significant accounting policies for a description of the comparative financial results for the years ended December 31, 1985, 1984 and 1983.

CORPORATE INFORMATION

Board of Directors

R.K. BANISTER
Chairman and Chief Executive Officer
Banister Continental Ltd.

H.B. BANISTER
Vice President, Planning, Equipment, and Business Development
Banister Continental Ltd.

W.M. BATEMAN
Consultant
Banister Continental Ltd.

R. BERNSTEIN**
Partner
Bear, Stearns & Co.

N. FRASER**
Vice President
Dominion Securities Pitfield Limited

J.R. McCAIG*
Chairman and Chief Executive Officer
Trimac Limited

R. MacTAVISH
President, Chief Operating Officer, and Chief Financial Officer
Banister Continental Ltd.

S.A. MILNER*
President and Chief Executive Officer
Chieftain Development Co. Ltd.

A.M. SHOULTS*
Chairman
CHQT Broadcasting Ltd.

G.A. VAN WIELINGEN**
Chairman and Chief Executive Officer
Sulpetro Limited

A. VANDEN BRINK
President and Chief Operating Officer
Trimac Limited

* Members of the Audit Committee
** Members of the Compensation Committee

Registrar and Transfer Agents

Guaranty Trust Company of Canada
401 - 9 Avenue S.W.
Calgary, Alberta T2P 3C5

88 University Avenue
Toronto, Ontario M5J 1T8

427 St. James Street West
Montreal, Quebec J8X 2K1

Morgan Guaranty Trust Company of New York
30 West Broadway
New York, New York 10015

Common Stock Listed on:

Alberta Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
American Stock Exchange
Stock symbols are BAC (ASE,TSE,MSE) and BAN (AMEX)

Officers

R.K. BANISTER
Chairman and Chief Executive Officer
38 years service

R. MacTAVISH
President, Chief Operating Officer, and Chief Financial Officer
5 years service

E.R. AUSTIN
Group Vice President, Utilities
23 years service

J.J.F. LOEWEN
Group Vice President, Civil Construction
1 year service

R.F.C. MARRIOTT
Group Vice President, Pipelines
12 years service

H.B. BANISTER
Vice President, Planning, Equipment, and Business Development
11 years service

C.N. D'CROIX
Vice President, Administration, Utilities
12 years service

D. FLYNN
Vice President, Labour Relations
16 years service

J. LECH
Vice President and Controller
6 years service

F.A.M. TREMAYNE
Vice President, Secretary and General Counsel
12 years service

J.W. WRIGHT
Vice President, Administration and Treasurer
19 years service

Banks

Royal Bank of Canada
First National Bank of Chicago

Bonding Company

Seaboard Surety Company

Auditors

Arthur Young, Clarkson, Gordon & Co.

Executive Offices

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Telex: 037-2380

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Pitts Engineering Construction
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Telex: 038-22653

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150 Sheldon Drive
Cambridge, Ontario N3V 2V8
Phone: (519) 653-3200
Telex: 069-59387

Annual Meeting

The annual meeting of shareholders of Banister Continental Ltd. will be held in the Angus Shaw Room of the Four Seasons Hotel, 10235 - 101 Street, Edmonton, Alberta at 11:00 a.m. on May 27, 1986.

BANISTER

Banister
Construction Group

"Building Strength"

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